

# Budget Overview

The City of Seattle's 2005-2006 Proposed Budget reflects the fiscal realities facing the City while continuing commitments to core City services. The Budget is guided by the four priorities of Mayor Greg Nickels: transportation, public safety, economic development, and strong families and healthy communities. Regional economic growth, more efficient delivery of services, and reductions or eliminations of lower-priority functions allow more focus on these priorities in the Proposed Budget.

The Mayor and City Council are committed to creating a sustainable budget for the General Fund and other City funds, including the utilities. The 2005-2006 Proposed General Fund Budget makes minimal reliance on fund balances or other one-time revenue sources. Revenues from nonrecurring sources, such as property sales, are dedicated to one-time projects rather than to ongoing expenditures. Under current economic assumptions, the 2006 Proposed Budget should be sustainable in future years.

The 2005-2006 Proposed Budget reflects changes in water, sewer, and drainage rates needed to continue services and to add resources to high-priority programs. Careful attention to project selection and management allowed the Mayor to propose a reduction in residential water rates for 2005.

## Economic and Revenue Challenges

The Puget Sound region endured a difficult economic recession beginning in 2001. The region lost 6.7 percent of its jobs between December 2000 and September 2003. During the same time period, the U.S. as a whole lost only 2.1 percent of its jobs and Washington state lost only about 3.0 percent. The regional recession led to declines in many City revenues, including sales taxes, Business and Occupation (B&O) taxes, electricity sales, and water revenues.

The revenue effects of the poor regional economy have been exacerbated by a variety of other challenges. Changes in state law since 2000 have reduced Seattle's potential 2005 General Fund revenues by more than \$45 million. The largest component of this is due to Initiative 747, which was approved by the state's voters in 2001 (although defeated within Seattle) and limits annual property tax revenue growth to 1 percent plus the value of new construction versus the previous limit of 6 percent plus new construction. This limitation has a compounding effect in reducing General Fund revenue growth, so 2005 property tax revenues are approximately \$35 million less than they otherwise could have been.

Revenues available for transportation projects were adversely affected by Initiative 776, which was approved by the state's voters in 2002 (as with I-747, this Initiative failed in Seattle). This Initiative eliminated the vehicle license fee collected by King County and shared with cities. This amounted to about \$5 million annually for Seattle, which was used to leverage another \$2-3 million in grants. The loss of this revenue, coupled with continuing declines in the value of gasoline tax revenues to cities, has created a looming funding crisis for transportation in Seattle and other Washington cities.

The State Supreme Court's decision in the Okeson v. Seattle case was handed down in November 2003. The Court ruled the City's practice of having the Light Fund pay for street lighting was unconstitutional and these costs were the responsibility of the General Fund. The City Council acted the next day to shift these costs to the General Fund for the remainder of 2003. The 2004 Adopted Budget continued charging street lighting costs to the General Fund and this practice continues in the 2005-2006 Proposed Budget.

The Okeson case was remanded to Superior Court for further consideration of various issues. Most significantly, a preliminary Superior Court ruling states the General Fund must reimburse the Light Fund for \$23.1 million of street lighting costs incurred between December 1999 and November 2003. The Mayor and Council revised the 2004 Adopted Budget early in the year to accommodate about one-fourth of this reimbursement. Another one-fourth is included in the 2005 Proposed Budget, along with debt financing to pay the balance due to the Light

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Fund by the end of the first quarter of 2005. The General Fund will repay this debt in 2006 and 2007, so the street lighting costs will be reimbursed over a four-year period, which corresponds to the length of time in which they were incurred.

In addition, the Superior Court ruled certain other costs charged to the Light Fund were inappropriate. These included costs allocated to the Light Fund for the Mayor's Office, a small business assistance program, and 1% for Art. The 2005 Proposed Budget includes reimbursement by the General Fund to the Light Fund for four years of costs for the Mayor's Office and the small business assistance program. No adjustments or refunds related to 1% for Art are included pending an appeal of this issue by the City.

The Puget Sound area's economy started to improve in early 2004. Employment in the region has grown by 31,000 jobs in the first seven months of 2004, which has led to strengthening of various tax, fee, and utility revenues. More information can be found in the General Subfund Revenue Overview section.

One remarkable revenue source for the 2005-2006 Proposed Budget is the Real Estate Excise Tax (REET). This tax is imposed at a rate of 0.5% on the value of all real-estate sales. By state law, the proceeds can be used solely for certain capital projects, such as transportation infrastructure and major maintenance of parks, libraries, and general government facilities. The City deposits REET into the Cumulative Reserve Subfund. Low interest rates in 2003 and early 2004 led to substantial growth in home sales, with a corresponding increase in REET revenues. When interest rates started to rise in 2004, home sales accelerated further as buyers worried that they eventually would be priced out of the market. As a result, the City is receiving a windfall of REET in 2004. Through August, 2004 REET revenues totaled \$23.3 million compared with \$18.7 million in 2003, previously the highest year in history for REET. Economic forecasts indicate these levels of REET will not be sustained in 2005 and 2006, but the additional 2004 REET proceeds can be used to make new capital investments in the 2005-2006 Proposed Budget.

## Approach to 2005 General Fund Budget

The process for developing the 2005-2006 Proposed Budget began in March after revisions were made to the 2004 Adopted Budget to respond to the Okeson case. At that time, it appeared 2005 General Fund revenues would be \$20-25 million less than the amount needed to sustain existing programs and cover new costs. This gap stemmed mostly from the use of one-time sources to balance the 2004 budget and the costs to operate new libraries, community centers, and other facilities whose capital costs were paid by voter-approved funds but whose operating costs have to be borne by the General Fund.

The Mayor directed the 2005 Budget be prepared in a manner that preserved high-priority direct services to the maximum extent possible. To this end, the budget development process relied on a mix of strategies:

- Administrative cuts. Significant reductions were identified in administrative departments such as Fleets & Facilities and Personnel. Operating departments also made reductions in internal administration, including the Library, Parks, Police, and Seattle Center.
- Elimination or reduction of lines of business. Several lower-priority services were reduced or eliminated. The City Design, Print, and Copy program was closed in order to reduce City costs in this area. This program had been losing money for many years and such losses were projected to continue. The Library eliminated its mobile services program since more branch libraries are now open and the Library has other means to reach home-bound patrons.

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- Elimination of positions. The Mayor directed that all vacant positions be reviewed and lower-priority ones eliminated. As a result of this exercise, approximately 175 positions were abrogated Citywide.
- Charging full cost of service. The City has had policies to subsidize certain services that legally could be recovered from fees. The 2005-2006 Proposed Budget moves to full cost recovery for many of these fees, including some of those charged by the Fire Department and Department of Planning and Development.
- Changing methods to contract for services. The Proposed Budget reflects new approaches to obtaining public health, indigent defense, and jail services, with substantial savings from earlier approaches. These approaches allow the City to obtain comparable levels of services while substantially reducing overhead charged by other agencies.

These strategies allowed the General Fund gap to be filled without requiring major cuts in direct services to the public. Some of the highlights of the City's overall operating and capital budgets are described in the functional categories that follow.

## Transportation

Improving transportation is one of the City government's highest priorities. The 2005-2006 Proposed Budget maintains most existing transportation programs and funds significant new capital projects. However, the Proposed Budget relies on significant use of windfall proceeds from the Real Estate Excise Tax.

The most significant capital investments in the Seattle Department of Transportation's 2005-2006 Proposed Budget include continued work on the replacement of the Alaskan Way Viaduct and Seawall, reconstruction of the approaches to the Fremont Bridge and a variety of related improvements, completion of the City's work on SR-519 Phase 1 to improve freight mobility, and completion of the Environmental Impact Statement for the Mercer Corridor project. Funding is increased for arterial paving, so about 44 lane-miles will be repaved in 2005. The 2005-2006 Proposed Budget also reflects the City's ongoing support for major transit projects, including Sound Transit light rail and the Seattle Monorail Project.

The City of Seattle and other Washington cities face a growing crisis in transportation funding. In May 2004, the Citizens' Transportation Advisory Committee presented a report to the Mayor and City Council describing the backlog of transportation projects and calling for new funding sources for local transportation. Seattle has lost more than \$18 million in transportation revenue annually due to the passage of Initiative 776 and court invalidation of the street utility. Seattle's elected leaders are working with other local officials to seek additional revenue options from the state Legislature.

## Public Safety

Public safety is another high priority for Seattle's residents and elected officials. The 2005-2006 Proposed Budget maintains current levels of uniformed staffing in the Police Department and maintains current on-duty staffing in the Fire Department. No significant changes in deployment are anticipated. Additional funds are provided for the development and use of technology to improve information available to public safety employees and the public.

The 2005-2010 Proposed Capital Improvement Program shows further progress in implementing the 2003 Fire Facilities and Emergency Response levy. Construction will begin on several new or remodeled fire stations during the biennium, including the new Fire Station 10 complex that also houses the Emergency Operations

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Center and Fire Alarm Center. Construction of two new fire boats will also begin in 2005 or 2006. The Joint Training Facility to serve the Fire Department and other departments is already under construction, with completion scheduled for the upcoming biennium.

## Economic Development

Mayor Nickels has identified economic development efforts as a key to improving the City's employment base and revenue sources. The 2005-2006 Proposed Budget continues previous efforts in infrastructure development, permit consolidation, business retention, and job training. New initiatives are targeted to improving the business climate in Southeast Seattle, Broadway, and the Pike-Pine corridor. The City is increasing its support for "Enterprise Seattle" (the former Economic Development Council) to expand efforts to attract and retain firms.

Portions of the City's capital budget help support these economic development efforts in targeted neighborhoods. For example, the 2005 Proposed Budget adds \$1 million of REET funds to the Northgate Library, Community Center, and Park to help complete these facilities to the original scope. The Budget provides funds to continue planning efforts on the Mercer Corridor and Streetcar projects in the South Lake Union neighborhood. The transportation budget includes funding for projects intended to improve freight mobility in the Duwamish industrial area.

## Strong Families and Healthy Communities

This priority area covers a wide range of topics, including support for the most vulnerable populations in Seattle and efforts to build vibrant communities throughout the city. The Proposed Budget contains many initiatives in this area:

- Funding levels for direct human services are slightly increased from 2004 to 2005, despite the adverse economic situation. Some funding is shifted among programs as a result of the Children's Budget process, which focused resources on high-priority areas and the most effective programs, but overall funding levels are maintained or increased. In addition, the Proposed Budget includes \$2.3 million of Cumulative Reserve funding for a new hygiene center, day center, and shelter for homeless people that will be sited near the new Fire Station 10. An additional \$900,000 is included in Finance General as a reserve to provide additional capital or operating funds for this project or the co-located fire facilities.
- The 2005-2006 Proposed Budget reflects voter approval of the Families and Education Levy on Sept. 14. This Levy will continue and expand the City's efforts to support children and youth, with new emphasis on readiness to learn and measurable outcomes. The previous Levy continues to provide funds through August 2005, so the 2005 Proposed Budget reflects a combination of the two levies in that year.
- Appropriations for the Neighborhood Matching Subfund are maintained at the 2004 level of approximately \$3.2 million. The Subfund provides City resources to match cash or in-kind contributions from community groups for planning, development, construction, or capacity-building projects.
- The Budget includes continued support for the Mayor's Race and Social Justice Initiative, including funding in the Office of Civil Rights and continuation of the Race and Social Justice allotment within the Neighborhood Matching Subfund.
- The Proposed Budget funds approximately \$5 million of additional costs for operations at new and expanded libraries, community centers, and other parks facilities. Hours and staffing models are maintained at 2004 levels throughout these systems.
- The capital budget continues to fund major maintenance of City facilities, such as pools, community centers, ballfields, and Seattle Center. Funding levels comply with City policies intended to ensure that the City invests adequate amounts to keep these facilities in good condition.

## Utilities and Technology

Seattle City Light emerged from the short-term effects of the West Coast power crisis in mid-2004 by paying off the last of the short-term debt incurred to cover high energy costs resulting from poor water conditions and manipulation of the energy markets. New financial policies proposed with this Budget will gradually reduce the utility's reliance on debt to finance its capital program and will build a substantial contingency reserve. The Mayor has proposed to undertake a thorough review of City Light revenue requirements and rates starting this fall, culminating in a rate proposal in late spring of 2005. The 2005-2006 Proposed Budget assumes that current rate levels are maintained. Approximately \$6 million of cuts are made in a variety of administrative functions and lower-priority programs to provide funds to improve reliability of the electrical distribution system and strengthen the utility's financial position.

Seattle Public Utilities completed a Solid Waste Facilities Plan and a Comprehensive Drainage Plan in 2004. The 2005-2006 Proposed Budget reflects rate proposals for water, drainage, and wastewater rates, with the latter being a continuation of a rate approach adopted by the City Council in 2003. The utility is continuing its asset management approach and is broadening the focus to include operational practices. This new approach has led to significant reductions in project costs and utility revenue requirements. As a result, the 2005 rate proposal calls for a reduction in residential water rates, the first in at least 50 years.

Beginning in 2005, City departments will make a concerted effort to improve and enhance Seattle's aquatic environment through the Mayor's Restore Our Waters initiative. This initiative requires departments to get the most benefit out of projects by coordinating work and using sound scientific information to make the best investments. Examples of projects the City is undertaking in this biennium include:

- Sand Point Magnuson Park Shoreline Renovation, which will repair the bulkhead and regrade the shoreline, providing a safer habitat for small fish.
- Beer Sheva Habitat Improvement, which will create a high-quality fish refuge and rearing habitat at the mouth of Mapes Creek.
- Bitter Lake/N 137<sup>th</sup> Stormwater, which will design and construct stormwater treatment to improve the quality of water discharged into Bitter Lake. Options include wet vaults and media filters with swirl concentrators for pretreatment.
- Fish Passage Program, which will remove fish passage barriers located in Pipers Creek and Taylor Creek, allowing returning salmon to access many more miles of stream.

The Department of Information Technology (DoIT) provides technology support to City agencies and also provides an array of services to the public, including government access television (the Seattle Channel), the City's Web site (the Public Access Network), and community technology support. The DoIT budget includes a proposal to increase the cable franchise fee by 1% to expand efforts in this area. One of the biggest changes will be expansion of the City's ability to accept electronic payments. DoIT is working with the Department of Executive Administration to implement services allowing utility bills, business licenses, and other charges to be paid through a secure Internet connection. DoIT is also working with the Parks Department to expand electronic registration for Parks programs.

## Looking to the Future

Despite this period of economic difficulty, the City has maintained and in many cases strengthened its long-term financial policies for the general government and utilities. The City continues to have a substantial Emergency Subfund and other General Fund reserves are maintained for purposes such as debt service, vehicle replacement, public safety communications, and legal claims. These policies have ensured the City maintains its very high bond ratings.

Most economic forecasts suggest the regional economy will continue to improve over the next several years. If so, the City's General Fund and utility budgets should be sustainable because the 2005-2006 Proposed Budget does not rely on any significant use of nonrecurring funds. The transportation budget will face major challenges in 2007 unless additional revenue sources become available. In addition, Seattle Center will continue to have revenue problems unless attendance at athletic and cultural programs returns to pre-2001 levels.

Overall, the 2005-2006 Proposed Budget represents a turning point in the City's fiscal fortunes. Economic improvements and increased efficiencies allow core programs to be maintained and a few new initiatives established to better serve Seattle's residents and businesses.